



Penieltech - Corporate Tax Guide

CORPORATE TAX UAE - *the complete guide*



IMPORTANT STEPS FOR UAE BUSINESSES

STEP-1

Register your business for corporate tax by June 2023:

- Corporate tax registration is needed starting with the first fiscal year, beginning on or after 1 June 2023.
- All enterprises, even those in free zones and independent contractors, must comply with this regulation.
- Noting that VAT and corporate tax are different taxes, you must still register for corporate tax even if your company already has a VAT number.

STEP-2

Keep accurate accounting records

- The corporation tax law of the UAE requires that particular accounting records be maintained.
- Businesses may manage their accounting and bookkeeping needs to maintain legal compliance with our ERP software, Elate ERP.
- Your accounting records will help you determine your company's tax obligations. For instance, your accounting documents must back up your claim that you are free from corporate tax or qualify for the Small Business Relief rule

STEP-3

You must submit your company's tax declaration

- Following your first taxable period, you must send a corporation tax filing to the Federal Tax Authority (FTA).
- Even if your business qualifies for an exemption or tax relief, you must still disclose it to the FTA by completing a tax submission.
- Penieltech can assist with corporate tax filing and ensure you take advantage of any tax exemptions or reliefs that apply to your business.

Note: The small business relief exemption is available to companies and people with annual revenues below AED 3 million. The financial relief will be accessible from 1 June 2023 until 31 December 2026, applicable to financial years commencing within this period.



CORPORATE TAX RATES

The UAE Ministry of Finance has implemented a three-tier taxation policy for corporate tax rates based on the annual net profits of businesses:

Tier 1

Businesses with annual net profits up to AED 375,000 enjoy an exemption from corporate tax, resulting in a 0% tax rate.

Profit < AED 375,000 = 0% Tax rate

Tier 2

Businesses with annual net profits exceeding AED 375,000 are liable to a 9% tax rate on the amount that surpasses the specified threshold.

Profit > AED 375,000 = 9% Tax rate

Tier 3

Large multinational companies may be subject to a higher tax rate per the guidelines outlined in Pillar Two of the OECD BEPS project.

Companies with global revenue exceeding EUR 750 million (approximately AED 3.15 billion) will fall under this category and have a different tax rate applied to profits exceeding AED 3.5 billion.

Profit > AED 3.5 Billion = Higher Tax rate



Free zone business tax policy

The UAE government has implemented specific provisions for businesses incorporated in free zones to foster a business-friendly environment. However, it is crucial to understand that merely being registered in a free zone does not automatically exempt a company from corporate tax. Below are essential points to grasp regarding the corporate tax policy for free zone businesses:

1

Free zone businesses that lose their tax exemption may still be eligible for other options, such as the Small Business Relief rule.

2

Free zone businesses can qualify for an exemption if they adhere to their respective free zone's regulations, including those specified in the corporate tax legislation.

3

Failure to comply with the free zone conditions outlined in the tax legislation could lead to the loss of the tax exemption.

Note: Even if a free zone business qualifies for an exemption, it must still register for corporate tax, maintain accurate accounting records, and submit an annual tax return to the Federal Tax Authority (FTA).

Do you qualify for the Small Business Relief rule?



The Small Business Relief rule reduces corporate tax responsibilities and compliance costs to support startups, SMEs, and micro companies in the UAE.

Businesses participating in this program are free from paying corporate tax if their annual gross turnover for any relevant or prior tax period is less than AED 3 million.

(Profit < AED 3 Million) = No Tax



Tax policy for freelancers



You need a professional license to work independently or as a freelancer in the UAE, which makes you liable for taxes. Unless you are eligible for exemptions, you must pay the 9% corporation tax if your annual income exceeds AED 3 million and your profit exceeds AED 375,000.

Income sources exempted

The following forms of income are exempt, according to the Ministry of Finance (MOF):



The revenue came from the distribution of dividends and other profits

Selling shares of a taxpayer-owned subsidiary company results in capital gains.



Industries exempt from taxes

In the UAE, several companies and legal entities may be eligible for corporation tax exemption, including:

1

Businesses engaged in the extraction or mining of natural resources in the UAE as they are already subject to Emirate-level taxation, eliminating the need for a separate tax report.

2

Entities working for charitable and social causes must register as such with the Ministry of Finance (MOF). Eligible entities must seek formal clearance from relevant authorities before applying for MOF registration.

3

Federal and regional offices, departments, divisions, and all other public institutions are also eligible for tax exemption.

4

Public or regulated private entities, including those dealing with social benefit funds such as pension or retirement planning, can qualify for tax exemption

5

Like charitable organizations, social benefit funds must apply to the MOF and the Federal Tax Authority (FTA) to obtain formal approval for tax exemption.

6

UAE companies that are fully owned by the UAE government and listed with a ministry-level decision will automatically receive tax exemption.

Differences: Corporate tax vs. VAT

VAT and corporate tax are two different levies. Even if a company has already registered for one tax, it must still register separately for the other.

Corporation tax is based on the taxable revenue of an organization, while VAT is determined as a percentage of the cost of products or services. Customers are levied with a consumption tax known as VAT when they transact.

To calculate corporate tax, a company uses its annual net profits. The company directly pays corporate taxes to the government, and the amount is determined by net income rather than total revenue.

Penieltech Can Help You Simplify Your Corporate Taxes

Penieltech can help you manage your company tax by providing a comprehensive cloud-based FTA-approved accounting and ERP software solution that can automate your tax calculations, provide real-time financial insights, and help you produce tax reports for compliance requirements. You may manage your finances and ensure you comply with your tax requirements using the FTA-approved software to keep track of your invoices, costs, and other financial transactions. A user-friendly interface and configurable dashboards are also provided by Penieltech, making it simpler to navigate the system and find the information you require. You may simplify your tax management procedures with Penieltech and concentrate on expanding your company.

Disclaimer: Please note that the information provided here is based on references to FTA (federal tax authority), and it may be subject to variation depending on conditions and other financial factors. It is advisable to verify all details with official FTA sources and consult with our experts before making any decisions.

For more information

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